

Exercise 7

Rewrite the following statements and fill in the blanks by using the terms provided below. Some terms may be used more than once or not at all.

temporary short run AS
inflationary equilibrium
full employment money or nominal
vertical

Within the monetarist or new classical perspective, the long run AS is

- (1) _____ at the potential output level and any deviation of
(2) _____ output from the potential (full employment) level will only be
(3) _____ and a result of fixed (4) _____ wages in the short run. When money wages change, the (5) _____ shifts and helps the economy return to its long run (6) _____ equilibrium.
Recessionary and (7) _____ gaps cannot persist into the long run within this framework.

Exercise 8

Calculate the size of the necessary increase in government spending:

- 1 to close an \$850 million recessionary gap if the marginal propensity to import is 0.19, \$20 is taken away as taxes from every extra \$100 earned and the marginal propensity to save is 0.11.
- 2 to increase income from \$1.56 trillion to \$1.66 trillion given an estimated value for the multiplier of 3.2.
- 3 if income is 1.6 % below the full employment level estimated at \$680 billion, the multiplier is estimated at 2.8 and the goal is to reach full employment.

Exercise 9

Calculate the change in national income:

- 1 in a closed economy if injections increase by \$12 billion, the marginal propensity to save is 0.25 and government taxes income at a flat rate of 15 %.
- 2 if export revenues increase by \$6 billion in an economy where MPM = 0.12, taxes are 14 % of income and the savings rate is 24 %.
- 3 if the multiplier is estimated at 1.7 and the government initiates an increase of \$350 billion.

Exercise 10

Assume a closed economy. Calculate the size of the marginal propensity to consume if an increase by the government of expenditures by \$122 billion was responsible for national income increasing from \$0.860 billion to \$1.104 trillion.

Exercise 6

Calculate the value of the multiplier if:

- 1 income has increased by \$120 billion following an increase in private sector investment by \$50 billion.
- 2 income decreases by \$20 billion when the government cuts its spending from \$62.5 billion to \$54.5 billion.
- 3 the marginal propensity to withdraw is 0.45.
- 4 the marginal propensity to consume in a closed economy without government intervention is 0.85.

Exercise 3

The following data represent the GDP of a country at current prices in millions of euros and a comprehensive price index (a price deflator).

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Nominal GDP	136,281	146,428	156,615	172,431	185,266	194,819	209,919	225,539	235,679	233,046
Price index	100	103.12	103.40	103.92	102.95	102.81	103.12	103.06	103.20	101.20

Calculate real GDP for this economy.